

Message Text

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PAGE 01 HELSIN 00999 171042Z

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-02 EPG-02 AID-05 SS-15

STR-04 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02

FEAE-00 OMB-01 /109 W

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R 170904Z MAY 77

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 1363

INFO USMISSION GENEVA

USMISSION OECD PARIS

UNCLAS HELSINKI 0999

E.O. 11652: N/A

TAGS: ETRD, GATT, FI

SUBJECT: K-GUARANTEE (EXPORT INFLATION INSURANCE) PROGRAM

REF: GENEVA 3027

1. BRIEF REVIEW FOLLOWS OF FINLAND'S EXPORT INFLATION INSURANCE PROGRAM, WHICH WE ARE CABLING SO THAT GENEVA WILL HAVE IT FOR GATT WP.

2. IN DECEMBER 1976 THE FINNISH EXPORT INFLATION INSURANCE PROGRAM WAS AMENDED TO REFLECT THE LOWER RATES OF WORLD AND FINNISH INFLATION AND ALSO TO MAKE THE PROGRAM MORE DIRECTLY RESPONSIVE TO COST FACTORS WHILE ELIMINATING MANY SMALLER, SHORTER TERM PROJECTS FROM ELIGIBILITY. THE THRESHOLD OF INFLATION WAS LOWERED FROM 11 PERCENT TO AN APPROXIMATE RANGE OF 8.5 PERCENT, TO REFLECT LOWER ANTICIPATED RATES OF INFLATION. (IT APPEARS THIS MAY HAVE BEEN PREMATURE.) AT THE SAME TIME THE BASE FOR CALCULATION OF INFLATION WAS CHANGED FROM ONE INDEX TO FIVE INDEXES, THREE OF MATERIALS COSTS AND TWO OF LABOR

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 HELSIN 00999 171042Z

COSTS. IT IS HOPED THAT COMPENSATION WILL BE BROUGHT CLOSE TO 100 PERCENT OF OVER-THRESHOLD INFLATION LOSSES. THE PREVIOUS SYSTEM, ACCORDING TO FINNISH OFFICIAL, COMPENSATED ONLY 80 PERCENT. A CHANGE IN THE TIME BASE, TO A DATE NINE MONTHS AFTER THE SIGNING OF A CONTRACT FURTHER REDUCES THE BENEFITS FOR SHORT TERM TRANSACTIONS (THE 18 MONTH MINIMUM REMAINS IN EFFECT BUT NOT INFLATION

OVER THE FIRST HALF OF AN 18 MONTH CONTRACT IS IGNORED
IN CALCULATING COMPENSATION).

3. DISBURSEMENTS FROM THE PROGRAM TOTALED 503 MILLION
FMK IN 1976 (\$103.2 MILLION AT THE 1976 AVERAGE EXCHANGE
RATE) WITH ONLY 26 MILLION FMK IN RECEIPTS. THIS REFLECTS
THE IMPACT OF RAPID INFLATION OF 1974-76 ON CONTRACTS
WRITTEN PRIOR TO THE INCREASE OF THE THRESHOLD IN MAY
1974 FROM 7 TO 1 PERCENT. OFFICIAL FINNISH SOURCES SAY
97.4 PERCENT OF THE DISBURSEMENTS WERE FOR CONTACTS
WRITTEN BEFORE MAY 1974, AND THEY EXPECT DISBURSEMENTS
TO FALL RAPIDLY AFTER 1977 AS MOST OF THE OLDER CONTACTS
WILL BE COMPLETED.

4. FINNMARK HAS BEEN CHRONICALLY OVERVALED THE PAST TWO
YEARS, FOR DOMESTIC POLITICAL AND ECONOMIC REASONS, AND
FINNS MAINTAIN THAT THE K-GUARANTEE PROGRAM IS PARTIALLY
COMPENSATION TO EXPORTERS FOR THIS OVERVALUATION.
FINNISH SOURCES SAY 80 PERCENT OF DISBURSEMENTS WERE
ON USSR PROJECTS, WHICH ARE THE PRIMARY REASON THE
PROGRAM EXISTS, AS THE SOVIETS DISLIKE COST ESCALATOR
CLAUSES. THE PROGRAM WAS EXTENDED TO COVER CONSTRUCTION
PROJECTS IN THE USSR IN 1975, AND EARLIER THIS MONTH,
A CONSORTIUM FILED AN APPLICATION BASED ON THE ANTICIPATED
CONSTRUCTION OF MINING COMPLEX AT KOSTAMUS IN SOVIET
KARELIA (SEE 76 HELSINKI 563).
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Disposition Approved on Date:
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Disposition Event:
Disposition History: n/a
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